

Statement of Financial Position

“Take Charge of Your Finances” Advanced Level

Meet Ian and Mitchell. Ian has an income of \$30,000 per year and a net worth of \$45,000. Mitchell has an income of \$85,000 per year and a net worth of \$28,000.

Who is wealthier?		
	Ian	Mitchell
Income	\$30,000	\$85,000
Net Worth	\$45,000	\$28,000

Who do you think is wealthier, Ian or Mitchell? Why?

Statement of Financial Position

Do you know the definition of net worth? **Net worth** is the objective measure of financial wealth. **Wealth** is a measurement of how much a person or household owns once all debts have been paid. Net worth is different than income. **Income** is money received such as wages earned from working for pay. A person can have a high income and low net worth and vice versa. If a person spends all money received and does not save and/or invest any money, they may have low net worth (no matter how high their income is).

Net Worth = **Wealth**

Statement of Financial Position for:	
Date:	
Assets	
Monetary assets	
Cash on hand	
Value of checking account and savings account	
Other:	
Subtotal of monetary assets	\$
Tangible Assets	
Market value of home	
Market value of household furnishings	
Market value of automobile	
Market value of electronics	
Market value of clothing	
Other:	
Subtotal of tangible assets	\$
Investment Assets	
Value of Investments	
Other:	
Subtotal of investment assets	\$
Total Assets	\$
Liabilities	
Home mortgage balance	
Installment loan balance for automobile	
Student loan balance	
Credit card balance	
Money owed to others	
Other:	
Total Liabilities	\$
Net Worth Total Assets - Total Liabilities	\$

How do you determine your net worth? Net worth is calculated using the Statement of Financial Position. A **Statement of Financial Position** (similar to a net worth statement or balance sheet) is a financial statement that describes an individual or family's financial condition on a specified date by showing assets, liabilities, and net worth. A Statement of Financial Position is similar to a balance sheet made for businesses but is designed for individuals, families, and/or households.

Assets

Assets are everything a person owns with monetary value. Assets can be divided into three categories: monetary, tangible, and investment.

- Monetary assets** are assets that can be quickly and easily converted into cash. This could include any cash you have on hand and money in checking and savings accounts.



Assets, continued

Tangible assets (also known as use or lifestyle assets) are personal property that was purchased to create a lifestyle or improve your life such as homes, automobiles, electronics, furniture, and any other personal property such as clothing, jewelry and sporting goods. The value of tangible assets can change, often decreasing, over time. Therefore, the market value of each property is what is listed on the Statement of Financial Position. The **market value** is what you could realistically sell that asset for today, not what you originally paid for the asset. There are resources that can help you determine the market value of your assets. For example, websites are available that estimate the market value of automobiles. If you are determining the market value of less expensive assets, such as electronics or furniture, research in the place you would sell that item to determine what similar items are selling for. For example, Derek purchased a car two years ago for \$12,000. He used a website to determine the current market value of his car, and it indicated \$8,500. He should record \$8,500 on his Statement of Financial Position.

Investment assets are assets that are purchased for the purpose of making more money. Investment assets can't be "used" like tangible assets.

Investment assets include the value of retirement accounts, stocks, bonds, mutual funds, and other forms of investments.



What assets do you own?

Liabilities

Liabilities are what is owed to others. The liabilities section of a Statement of Financial Position should include anything owed to someone else. Liabilities might include an automobile loan, a balance on a credit card, money owed to others such as a family member, and maybe a student loan taken out to pay for education.

When recording the amount for each liability, you should record what you would pay if you were to pay the loan off in full today. For example, let's say you have an automobile loan that if you were to pay today in full you would owe \$5,490. If you were to continue making payments of \$180 which include interest you would have paid \$6,300 total. Because a Statement of Financial Position is based on a specific date, you would record what you owe today which is \$5,490. It is important to note that liabilities are different than expenses. **Expenses** are money spent. Expenses are bills that are paid on a regular basis, often monthly. When you pay back a liability it may become an expense, such as the \$180 monthly payment to pay back a car loan. The car loan itself is a liability and the monthly payment to repay the car loan is an expense.

Do you have any liabilities?

Net Worth

Once you have determined the value of all your assets and liabilities, you will subtract the total liabilities from the total assets to determine your net worth:

$$\text{Assets} - \text{Liabilities} = \text{Net Worth}$$

Net worth is the objective measure of wealth. Therefore, net worth is like your personal financial thermometer, because it provides a number that can measure your “financial temperature.” What do you want your financial temperature to be? The amount of wealth desired varies for everyone. For many, this is having enough to maintain a quality lifestyle during retirement. For others, it is having enough to feel a sense of high financial well-being. Determine what amount of net worth you desire and then set goals to reach that amount.



Creating a Statement of Financial Position

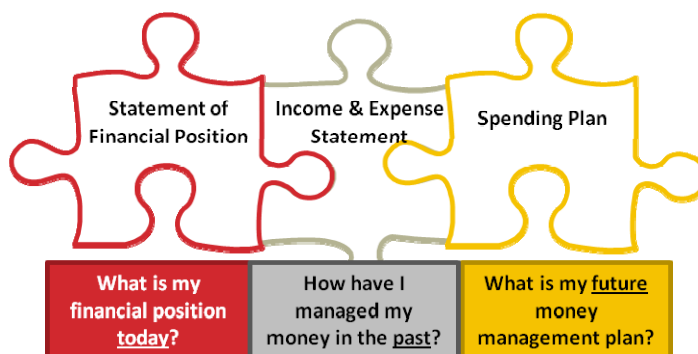
Your present self impacts your future self.

As you are planning financially for your future, consider your net worth by creating a Statement of Financial Position. Research has shown that individuals have a tendency to believe they owe less than they actually do or own more than they actually do. Having a written Statement of Financial Position will give you a tangible record to refer to and help you set financial goals. Use any written method that works for you (by hand, a spreadsheet, etc.).

It is recommended to create a Statement of Financial Position approximately once per year. If you are making decisions regarding assets and liabilities (such as making a large purchase like a house or automobile) you will want to create a statement more often. In fact, you may be asked to create a Statement of Financial Position at some point in your life by a financial professional such as a financial advisor, loan officer, accountant, etc.

If you want to increase your net worth, you can increase your assets, decrease your liabilities, or a combination of both. Increasing assets and/or decreasing liabilities will require you to evaluate how you manage your money. In addition to the Statement of Financial Position, there are two other money management tools that will help you evaluate your past, present, and future financial decisions, the Income and Expense Statement and the Spending Plan.

These three money management tools work together to help you objectively evaluate your financial position to work towards reaching the net worth level you desire.



When making financial decisions, keep your net worth in mind. This may be especially important when you are considering taking on more liabilities. Before you commit to a loan, ask yourself if the amount borrowed is necessary. Could you use money for an asset instead of taking out a loan? Could you decrease the amount of the loan by purchasing a less expensive item? Remember that the choices you make in the present are going to affect your future.

STATEMENT OF FINANCIAL POSITION TEMPLATE

Statement of Financial Position for:	
Date:	
Assets	
<i>Monetary assets</i>	
Cash on hand	
Value of checking account	
Value of savings account	
Other:	
<i>Subtotal of monetary assets</i>	\$
<i>Tangible Assets</i>	
Market value of home	
Market value of household furnishings	
Market value of automobile	
Market value of electronics	
Market value of clothing	
Market value of jewelry	
Market value of sporting goods	
Other:	
<i>Subtotal of tangible assets</i>	\$
<i>Investment Assets</i>	
Value of investments	
Other:	
<i>Subtotal of investment assets</i>	\$
Total Assets	\$
Liabilities	
Home mortgage balance	
Installment loan balance for automobile	
Student loan balance	
Personal loan balance	
Credit card balance	
Money owed to others	
Other:	
Total Liabilities	\$
Net Worth = Total Assets - Total Liabilities	\$